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**IT'S THE INFRASTRUCTURE STUPID:**  
**VIETNAM'S KEY TO ECONOMIC PROSPERITY**

by

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**Lt Col, USAF**

**A paper submitted to the Faculty of the Naval War College in partial satisfaction of the requirements of the Department of Joint Military Operations.**

**The contents of this paper reflect my own personal views and are not necessarily endorsed by the Naval War College or the Department of the Navy.**

**Signature: \_\_\_\_\_**

**1 November 2013**

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## **ABSTRACT**

The Vietnamese government has made great strides economically since adopting reform measures through Doi Moi transformation policies in 1986. The economy has moved from a primarily state owned enterprise to a more open market economy. In 1995, Vietnam initiated its request for membership in the World Trade Organization achieving this status in 2007. These bold steps have opened up trade options and allowed the developing country to experience tremendous growth in its gross domestic product. In order to keep pace with this economic progress, Vietnam will have to invest heavily in its infrastructure. This research paper argues that if Vietnam invests in its transport infrastructure, it will bolster its primary export sector of agriculture and other areas of its economy. The existing railway, road, and port infrastructures are in poor condition, absent, or require significant modernization to meet existing and future demands. Most infrastructure development projects within Vietnam are supported by foreign investments and therefore should be continued. In so doing, employment will increase and spur microeconomic growth with macroeconomic effects. Finally, infrastructure capacity will increase and entice further foreign investors allowing the country to pursue its goal of being an industrialized country. Vietnam must invest in its infrastructure to realize continued economic growth.

*“You and I come by road or rail, but economists travel on infrastructure.”<sup>1</sup>*  
- Margaret Thatcher, Prime Minister United Kingdom

## INTRODUCTION

Forty years have passed since the United States’ involvement in the Vietnam War or the American War as it is referred to by the Vietnamese. Since August 1973, many Americans’ perceptions of Vietnam have remained constant, viewing the country as having only rice paddies and straw huts. To the contrary, this country of ~90 million has progressed well beyond that limited view. The economic vitality over the past 10 years is evident in the growth of their Gross Domestic Product (GDP) that has steadily edged upward at over 7% albeit slowing slightly in 2012. Understanding that GDP is the total value of goods and services produced in a year within a country, agriculture is one-fifth of Vietnam’s GDP.<sup>2</sup> With the country growing economically, its ability to support and sustain that growth is spurred by the infrastructure that will support exports and imports. According to Jane’s country assessments, trade represents over 60% of Vietnam’s GDP.<sup>3</sup> These goods and products must be collected, stored, and transported from fields and manufacturers across and through railways, roads and ports to maintain this level of growth. So it is all about the transportation infrastructure.

The existing infrastructure of railways, roads, and ports are notably in poor condition throughout the country which constitutes a gap limiting the overall economic viability of the country. While nearly 80% of the 200,000 km (~125,000 miles) national road system in Vietnam is paved, the roads are largely inadequate for the volume of traffic.<sup>4</sup> Road traffic

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<sup>1</sup> *Margaret Thatcher Biography*. 2006, accessed October 20, 2013, <http://www.altiusdirectory.com/Society/margaret-thatcher-biography.html>.

<sup>2</sup> *The World Book Encyclopedia, Volume 20, U-V*, (Chicago: World Book, Inc.), 2012, 369.

<sup>3</sup> Janes, *IHS Jane's Sentinel Country Risk Assessments -- Southeast Asia*, Vols. Issue Thirty-three, (Alexandria: IHS Global Inc.), 2013, 789.

<sup>4</sup> *Vietnam Infrastructure Report, Q4 2013*. (London: Business Monitor International), 2013, 29.

continues to increase as evidenced by the number of private cars registered in the country approached one million in 2011.<sup>5</sup> Surveys indicate that over 40% of the roadways in the national network are in poor or very poor condition.<sup>6</sup> The railways present similar challenges as the roadways in that the network expands over 3,100 km but is largely outdated with incompatibility issues due to varying types of gauges.<sup>7</sup> Major seaports are located in Haiphong, Da Nang, and Ho Chi Minh City (formerly Saigon City).<sup>8</sup> Ironically, the well-known United States air and naval base during the Vietnam War, Cam Ranh Bay, is not currently used for commercial traffic; however, in 2012, the Vietnamese government announced it would renovate the port for national economic development and defense, offering repair facilities for foreign navy ships and submarines to offset operating costs.<sup>9</sup> The Journal of Commerce ranks the Ho Chi Minh City system of ports as the 29<sup>th</sup> busiest container port worldwide.<sup>10</sup> It handles well over half of the countries' economic throughput.<sup>11</sup> In sharp contrast, the quality of the country's port infrastructure ranks 98 of 148 countries in the Global Competitiveness Index conducted by the World Economic Forum.<sup>12</sup> With the economy possessing forward momentum as indicated by existing and projected GDP growth, if Vietnam invests in its infrastructure, it will experience continued economic growth and expand its overall position on the global stage. Invest it must.

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<sup>5</sup> IHS Jane's Sentinel Security Assessment - Southeast Asia, *Infrastructure*, June 26, 2012, accessed Sep 28, 2013, [www.ihs.com](http://www.ihs.com).

<sup>6</sup> *Vietnam Infrastructure Report, Q4 2013*. (London: Business Monitor International), 2013, 29.

<sup>7</sup> IHS Jane's Sentinel Security Assessment - Southeast Asia, *Infrastructure*, June 26, 2012, accessed Sep 28, 2013, [www.ihs.com](http://www.ihs.com).

<sup>8</sup> *The World Book Encyclopedia, Volume 20, U-V*, (Chicago: World Book, Inc.), 2012, 369.

<sup>9</sup> *Vietnam's Cam Ranh base to welcome foreign navies*, November 2, 2010, accessed October 23, 2013.

<http://www.washingtonpost.com/wp-dyn/content/article/2010/11/02/AR2010110200139.html>.

<sup>10</sup> "Journal of Commerce, Top 50 Container Ports," 2011, accessed October 19, 2013,

<http://www.joc.com/sites/default/files/u48783/pdf/Top50-container-2012.pdf>

<sup>11</sup> Nguyen Xuan Thanh and Jonathan Pincus, "Fulbright Economics Teaching Program," *Relocation of Ho Chi Minh City Seaports*, September 19, 2012, accessed October 28, 2013,

<http://www.fetp.edu.vn/attachment.aspx?id=4318>.

<sup>12</sup> Klaus Schwab, *Global Competitiveness Report*, (Geneva: World Economic Forum), 2013.

## BACKGROUND

Vietnam's worldwide ranking in overall infrastructure is 110 out of 148 countries surveyed for the 2013-2014 annual Global Competitiveness Report published by the World Economic Forum.<sup>13</sup> Its rating of 3.4 fell below the global average of 4.3 and is inconsistent with its GDP ranking of 57th in the world.<sup>14</sup> Vietnam will have to get better in this area to match its economic progress and growth over the past decade spurred by a general acceptance of the 1986 Doi Moi (Renovation) concept in the government.<sup>15</sup> These reforms forced a transition from a traditional state-owned enterprise (SOE) to more private ventures throughout the country. The transition has had both positive and negative impacts on the state of infrastructure upgrades. The SOE incurred great amounts of debt which are now hindering the government from financing greatly needed repairs in the transport sector of infrastructure. In an effort to off-set this hindrance, the government has successfully implemented several private-public partnership ventures to bolster lagging public transportation systems, notably an improved bus transport service in Hanoi to cope with rapid urbanization and rising incomes. A US\$250K Public-Private Infrastructure Advisory Facility grant to study the problem resulted in a cumulative reduction of US\$2.5M in public subsidies, generated 1,300 private sector jobs and \$11M in private investments.<sup>16</sup> Similar innovative ideas and actions in the infrastructure realm are necessary to allow Vietnam to experience continued economic growth.

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<sup>13</sup> Klaus Schwab, *Global Competitiveness Report*, (Geneva: World Economic Forum), 2013, 432.

<sup>14</sup> Ibid, 404.

<sup>15</sup> Mark A. Ashwill and Thai Ngoc Deip, *Vietnam Today: A Guide to a Nation at a Crossroads*, Boston, 2005, 18.

<sup>16</sup> *Public Private Infrastructure Advisory Facility - Impact Stories*, November 2010, accessed October 20, 2013, <http://www.ppiaf.org/sites/ppiaf.org/files/publication/PPIAF-Impact-Stories-VietnamHanoiBus.pdf>.

Modernization and development have changed the transportation system – and stereotypes. Bicycles have lost their prestige and are now considered the poor man’s way of commuting. Instead, motorists are utilizing motorcycles, scooters and increasingly automobiles.<sup>17</sup> The growing volume of vehicles adds to the wear and tear on already over-tasked and under-maintained roadways, exacerbates existing bottlenecks, and causes loss of revenue due to inefficient transportation options. In addition to the roads, the railway system is ripe for upgrades to allow for interconnectivity among neighboring countries. Projects to connect Laos, Cambodia, and Da Nang in Vietnam via an East-West railway system would increase trade options and potentially free up roadway congestion.<sup>18</sup> Likewise, the inland ports located in Ho Chi Minh City are in need of relocating to allow access by deep water vessels preventing transshipment at other ports in Southeast Asia (such as Hong Kong and Singapore), which is a frequently used practice.<sup>19</sup> The lack of suitable deep water ports in the South increases the costs of Vietnamese goods negating the comparative economic advantage it currently has before paying for transshipment handling and fuel costs.<sup>20</sup> Finally, infrastructure developments outside the transport sector, specifically in the energy sector, would further build up Vietnam’s capacity to accept additional trade from countries interested in the country’s goods and services. The aforementioned concerns indicate an environment ripe for aggressive infrastructure upgrades and investments.

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<sup>17</sup> *IHS Jane's Sentinel Security Assessment - Southeast Asia, Infrastructure*, June 26, 2012, accessed Sep 28, 2013, [www.ihs.com](http://www.ihs.com).

<sup>18</sup> *Radio Free Asia - Laos: Laos to Break Ground for Thai-Vietnam Railway Project*, June 6, 2013, accessed October 31, 2013, <http://www.rfa.org/english/news/laos/railway-06062013161030.html>.

<sup>19</sup> Nguyen Xuan Thanh and Jonathan Pincus, "Fulbright Economics Teaching Program," *Relocation of Ho Chi Minh City Seaports*, September 19, 2012, accessed October 28, 2013, <http://www.fetp.edu.vn/attachment.aspx?id=4318>.

<sup>20</sup> Amanda C. Morrow Jensen, *Vietnam's Port Potential: The Economic and Political Implications of Vietnam's Port Renovation*, The Project 2049 Institute, 2009, accessed October 28, 2013 [http://project2049.net/documents/vietnams\\_port\\_potential\\_shipping.pdf](http://project2049.net/documents/vietnams_port_potential_shipping.pdf).



## COUNTER-ARGUMENT

Former Speaker of the US House of Representatives Thomas Foley once stated “One person’s pork barrel project is another person’s wise investment in the local infrastructure.”<sup>21</sup> Mr Foley’s statement underscores the reality that the best intentions can also serve to benefit alternate agendas and therefore give reason not to invest in certain infrastructure projects. The Global Competitiveness Index (GCI) ranks Vietnam at 70 on the GCI scale for 2013-2014, up five positions from last year though the overall score of 4.2 is virtually unchanged.<sup>22</sup> According to the GCI report, the most problematic factor for doing business in Vietnam is access to financing. The high debt incurred by many State Owned Enterprises (SOEs) contributes to this financing issue. SOEs accumulated considerable debt prior to the Doi Moi economic transformation which now negatively impacts the macroeconomic environment for Vietnam. This debt is now causing the government consternation as it attempts to put forth funding and meet obligations with foreign investors. In some cases, the debt has put significant projects on hold or caused cancellation of them altogether.<sup>23</sup> Foreign investors will be reluctant and withhold capital if there is a chance of the government defaulting on their portion. In the area of energy infrastructure, the existing electrical grids cannot stand up to the growing demands of population growth and economic expansion. Power outages occur daily in Vietnam and underscore the significant electricity issues facing the country.<sup>24</sup> Capacity in this area brings into question the necessity and overall wisdom of putting major transport infrastructure strategies in play that will outpace necessary energy requirements.

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<sup>21</sup> Charles Henning, *The Wit & Wisdom of Politics*, (Golden, Colorado: Fulcrum Inc.), 1989, 210.

<sup>22</sup> Klaus Schwab, *Global Competitiveness Report*, (Geneva: World Economic Forum), 2013, 388.

<sup>23</sup> *Vietnam Infrastructure Report, Q4 2013*, (London: Business Monitor International), 2013, 31.

<sup>24</sup> *Ibid*, 8.

Financially, the government of Vietnam relies heavily on foreign financing for infrastructure projects, particularly from European banks.<sup>25</sup> These banks have economic crises of their own as well as stricter capital controls that will make overseas infrastructure investments much more challenging. Additionally, some would argue that internally, Vietnam is slow to adopt technological advances, which will continue to hinder their rise in economic status.<sup>26</sup> Finally, the rampant corruption and general lack of effective administration of complex projects puts any high dollar project at great risk.<sup>27</sup> This captures the essence of the opposing views to investing in Vietnam's transport infrastructure.

## **INFRASTRUCTURE AND AGRICULTURE**

Despite the aforementioned opposing views, Vietnam would benefit greatly from infrastructure investments. Upgraded and maintained infrastructure will directly enhance agrarian productivity and economic viability. Foreign investors will be more interested in spending scarce dollars if they see a greater return due to enhancements in infrastructure which will enable further investments in other areas. Employment for the general populace stands to rise as infrastructure projects are funded and executed, which will in-turn blossom the local economy. Infrastructure investments will increase the overall capacity of the nation and feed into bolder regional capabilities.

Agriculture is Vietnam's cash cow accounting for 21.5% of GDP when coupled with forestry and fisheries.<sup>28</sup> Agriculture represents the single largest source of employment for the Communist Party of Vietnam (CPV) and, as such, holds considerable political and economic

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<sup>25</sup> *Vietnam Infrastructure Report, Q4 2013*, (London: Business Monitor International), 2013, 20.

<sup>26</sup> Klaus Schwab, *Global Competitiveness Report*, (Geneva: World Economic Forum), 2013, 36.

<sup>27</sup> *Vietnam Infrastructure Report, Q4 2013*, (London: Business Monitor International), 2013, 31.

<sup>28</sup> *IHS Jane's Sentinel Security Assessment, Vietnam - "Economy Sector Analysis Agriculture"*. July 10, 2012, accessed Sep 28, 2013, [www.ihs.com](http://www.ihs.com).

significance for the country.<sup>29</sup> The importance of agriculture cannot be overemphasized for this heavily agrarian society. It stands to reason that easing infrastructure burdens for those workers and businesses that are affiliated with the agriculture sector is a wise investment of resources. Infrastructure investments will stimulate growth in the agriculture sector, a recognized economic strength for Vietnam.

Inhabited by over 17 million people, the Mekong Delta is a key agricultural economic area and experienced 11% GDP growth from 2001 to 2010; however, it earned just 7% of the country's foreign direct investment (FDI).<sup>30</sup> Some of that foreign investment has been provided to the Mekong Delta Transport Infrastructure Development Project financed by outside entities such as Australia and The World Bank. The purpose of the project is to provide easier access to markets for businesses, farmers and the poor by decreasing logistics costs for travel through areas that were previously encumbered by natural obstructions and chokepoints along the main transport corridors of the Mekong Delta region.<sup>31</sup> This particular project is valued at US\$380M of which AUS\$48M is being funded by the Australia Agency for International Development. This project underscores the value of infrastructure ventures and their impacts on the surrounding community. For example, Ho Chi Minh City is the primary southern port for Vietnam. The existing roads and waterways are in need of significant upgrade with only 10% of the roads in this region paved.<sup>32</sup> This development project upgrades over 415 km of roads and improves 118 bridges thereby decreasing travel time to and from key markets by ordinary

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<sup>29</sup> Ibid.

<sup>30</sup> *Voice of Vietnam*. October 15, 2013, accessed October 28, 2013, <http://vovworld.vn/en-us/Economy/Vietnam-attracts-more-FDI-in-Mekong-River-Delta/187982.vov>.

<sup>31</sup> *Vietnam - Mekong Transport Infrastructure Development Project : restructuring (Vol. 2 of 2) : Data sheet*, November 12, 2012, accessed October 23, 2013, <http://documents.worldbank.org/curated/en/2012/11/16928287/vietnam-mekong-transport-infrastructure-development-project-restructuring-vol-2-2-data-sheet>.

<sup>32</sup> *Australian AID - Vietnam: Mekong Transport Infrastructure Development Project*, October 13, 2012, accessed October 23, 2013, <http://www.ausaid.gov.au/countries/eastasia/vietnam/Pages/infrastructure-init2.aspx>.

farmers and everyday workers.<sup>33</sup> In practical terms, Than Nien News reports the average truck travel time on National Highway 91 is expected to be reduced by 10% and rice barge travel time from Rach Gia to Ho Chi Minh City will be reduced by 5 hours. Fatalities on the highways and waterways are also expected to decrease by 15 and 5% respectively.<sup>34</sup> The Mekong is a vibrant area critical for continued export traffic and trade expansion. These types of investments in infrastructure will directly increase the economic viability of the country.

There are existing examples of the viability and effectiveness of agriculture investments that focus on enhancing critical public market infrastructure. The Vietnamese government in concert with The World Bank embarked upon an Agricultural Competitiveness Project. This nearly US\$75M project was focused on increasing the agricultural competitiveness of Vietnam in four different areas – agricultural technology, productive partnerships, critical public infrastructure and project management and institutional strengthening.<sup>35</sup> The upgrade and enhancement of critical public infrastructure garnered an initial investment of ~US\$25M focused in this area of infrastructure. This component focused on increasing market efficiency by reducing post-harvest loss resulting from poor or simply an absence of public infrastructure. Public partnerships earned through other components of this project were encouraged to invest their resources in infrastructure that directly affects their agricultural business activities. Local entities could also nominate infrastructure priorities that benefitted the overall efficacy of

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<sup>33</sup> *The World Bank - News: Additional Financing Approved to Ease Traffic in Vietnam's Mekong Delta*, January 29, 2013, accessed October 19, 2013, <http://www.worldbank.org/en/news/press-release/2013/01/29/additional-financing-approved-to-ease-traffic-in-vietnams-mekong-delta> .

<sup>34</sup> *Thanh Nien News: Additional funding of \$171 mln approved for Mekong Delta transportation upgrade*, January 31, 2013, accessed October 19, 2013, [http://www.thanhniennews.com/2010/pages/20130131-another-\\$171-mln-approved-for-vietnam-delta-transport%20project.aspx](http://www.thanhniennews.com/2010/pages/20130131-another-$171-mln-approved-for-vietnam-delta-transport%20project.aspx).

<sup>35</sup> *Agriculture Competitiveness Project - Vietnam*. Dec 7, 2007, accessed October 19, 2013, [http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2007/09/19/000021271\\_20070921142354/Rendered/PDF/ACP1Project0In1cument1Concept0Stage.pdf](http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2007/09/19/000021271_20070921142354/Rendered/PDF/ACP1Project0In1cument1Concept0Stage.pdf).

transporting goods for market utilization.<sup>36</sup> Interim results demonstrate that overall trading relations between farmers and agribusiness have been positive. Other indicators reveal transportation travel time from production point to market are reduced by nearly 70%, travel costs reduced 23%, and post-harvest loss by 34%.<sup>37</sup> These indicators have multiplying effects on the local and global economy as farmers are afforded easier access and higher returns on their investments.

When considering the global impacts of Vietnam's exports, it is obvious that infrastructure enhancements will directly support the agriculture sector and are a wise investment. Vietnam is the world's second largest exporter of rice behind Thailand.<sup>38</sup> Acknowledging the risk of this export due to unpredictable weather patterns, Vietnam is wise to maximize its ability to harvest and transport rice and other key exports in the most efficient manner possible. Infrastructure projects are important but costly which makes the subject of resourcing an increasingly important topic since foreign investments have been vital in Vietnam's progress over the past decade.

## **VALUE OF FOREIGN INVESTMENTS**

Vietnam sought and became the World Trade Organization's (WTO) 150<sup>th</sup> member in January of 2007. According to the WTO website, Vietnam applied for entry into this influential body in January 1995.<sup>39</sup> The average negotiation time from application to approval varies greatly, especially in the post-Cold War era, but it suffices to say that Vietnam's decade-plus

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<sup>36</sup> Ibid.

<sup>37</sup> Ibid.

<sup>38</sup> *IHS Jane's Sentinel Security Assessment, Vietnam - "Economy Sector Analysis Agriculture,"* July 10, 2012, accessed Sep 28, 2013, [www.ihs.com](http://www.ihs.com).

<sup>39</sup> *World Trade Organization*, 2013, accessed October 22, 2013, [http://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_vietnam\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/a1_vietnam_e.htm).

negotiation process proves its desire to improve its international trading status. As a point of comparison, China's negotiation process consumed nearly 15 years.<sup>40</sup> Although the process is supposed to be foundationally based in economic principles, human rights and other non-germane economic concerns can cause members to offer resistance during the application process.<sup>41</sup> The inherently lengthy and involved process requires a large degree of trade openness (imports plus exports as percent of GDP) and willingness or desire to pursue bilateral agreements with existing WTO members.<sup>42</sup> Now that Vietnam is a WTO member, it continues to expand its trade options to increase its regional status economically and even globally in select areas such as agricultural exports. Vietnam's desired end state is to be an industrialized country by 2020.<sup>43</sup> To meet this goal will require focused investment in infrastructure.

Vietnam's Minister of Investment and Planning stated a lack of upgrades to its infrastructure will inhibit the country's ability to attract high-tech companies in the coming years.<sup>44</sup> This followed positive news that Vietnam achieved its foreign direct investment goal of US\$13-14 billion for 2013. The latest foreign fund investments include three Japanese projects in Ho Chi Minh City valued at \$170 million, a \$100 million dollar investment by South Korea in tire manufacturing in the southern province of Binh Duong, and a \$1.5 billion high-tech complex

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<sup>40</sup> Ka-Fu Wong and Miaojie Yu, *Democracy and the GATT/WTO Accession Duration*, April 2007, accessed October 22, 2013, 2, [http://www.princeton.edu/~cldavis/files/joiningtheclub\\_DavisWilf.pdf](http://www.princeton.edu/~cldavis/files/joiningtheclub_DavisWilf.pdf).

<sup>41</sup> Christina L Davis and Meredith Wilf, *Joining the Club: Accession to the GATT/WTO*, August 18, 2013, accessed October 22, 2013, 7, [http://www.princeton.edu/~cldavis/files/joiningtheclub\\_DavisWilf.pdf](http://www.princeton.edu/~cldavis/files/joiningtheclub_DavisWilf.pdf).

<sup>42</sup> Christina L Davis and Meredith Wilf, *Joining the Club: Accession to the GATT/WTO*, August 18, 2013, accessed October 22, 2013, 27, [http://www.princeton.edu/~cldavis/files/joiningtheclub\\_DavisWilf.pdf](http://www.princeton.edu/~cldavis/files/joiningtheclub_DavisWilf.pdf).

<sup>43</sup> *Australian AID - Vietnam: Infrastructure Overview*, June 13, 2013, accessed October 23, 2013, <http://www.ausaid.gov.au/countries/eastasia/vietnam/Pages/infrastructure.aspx>,

<sup>44</sup> *Thanhniên News - Vietnam achieves 2013 foreign investment goal*, September 19, 2013, accessed October 22, 2013, <http://www.thanhniennnews.com/2010/pages/20130917150839-foreign-investment-in-vietnam-achieves-2013-target.aspx>

investment by South Korea in the city of Haiphong in the north.<sup>45</sup> Each of these projects will bring additional requirements for public transportation upgrades to accommodate additional workers and alleviate unforeseen traffic bottlenecks. Additionally, the goods that will be sold require logistics nodes to handle the increased requirements for pick-up and delivery.

Several foreign investors contributed to the burgeoning infrastructure upgrade and modification that is greatly needed in Vietnam. Australia's connection has been especially acute. Australia is: Vietnam's sixth largest donor in official development assistance at an estimated AUS\$159.1M in 2013-14 (up AUS\$6M from previous year); ranked 20<sup>th</sup> in overall foreign direct investment in June 2012 at US\$405 million funding over 241 projects; and is Vietnam's seventh largest export market at 2.6% in 2011 behind the US (18%), EU (17%), ASEAN (15%) and Japan (12%).<sup>46</sup> Specifically, Australia has invested heavily in Vietnam's infrastructure. Most notably in 2009, a New South Wales-based construction company, Baulderstone, partnered with Bilfinger Berger and completed the Phu My Bridge over the Saigon River in Ho Chi Minh City providing a crucial link between northern and central Vietnam and the Mekong Delta region at a cost of \$150 million.<sup>47</sup> The relationship between Australia and Vietnam dates back to the 1970s following the Vietnam War when large numbers of refugees fled to Australia. As of the 2011 census, over 221,000 Australian residents claim Vietnamese ancestry and represent the fifth largest migrant community in Australia.<sup>48</sup> The two nations are inextricably linked not just economically, but by people.

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<sup>45</sup> *Thanhniên News - Vietnam achieves 2013 foreign investment goal*, September 19, 2013, accessed October 22, 2013, <http://www.thanhniennnews.com/2010/pages/20130917150839-foreign-investment-in-vietnam-achieves-2013-target.aspx>.

<sup>46</sup> *Australian Government - Department of Foreign Affairs and Trade: Vietnam country brief*, September 2013, accessed October 23, 2013, [http://www.dfat.gov.au/geo/vietnam/vietnam\\_brief.html](http://www.dfat.gov.au/geo/vietnam/vietnam_brief.html).

<sup>47</sup> Ibid.

<sup>48</sup> Ibid.

Indeed, February 2014 marked the 40<sup>th</sup> anniversary of the diplomatic relations between the two countries and in September 2009, they signed the Australia – Vietnam Comprehensive Partnership Agreement.<sup>49</sup> Australia continues to invest heavily in Vietnam to which this growing Asian country continues to benefit greatly. Conversely, Australia certainly recognizes Vietnam's acceptance in the WTO in 2007 and continued progress toward implementing accession requirements could bode extremely well for Australian exporters.<sup>50</sup>

Vietnam's foreign partners invest strongly through the official development assistance (ODA) vehicle as well as FDI. In October 2013, the World Bank commemorated Vietnam's 20 year relationship with ODA donors. According to the World Bank, donors have pledged \$52 billion worth of ODA of which 66% is intended for the infrastructure development sector.<sup>51</sup> In the first six months of 2013, ODA donations were up 6% from the same time last year totaling over \$3.8 billion.<sup>52</sup> This type of investment continues to support the development of necessary infrastructure improvements and further economic viability. During this period of benevolent contributions to Vietnam, poverty has fallen from 51% of the population to 8%.<sup>53</sup> While this is an amazing statistic, continued investment is required to sustain this progress. The World Economic Forum's Global Competitiveness Index recognizes that "the quality and extensiveness of infrastructure networks significantly impact economic growth and reduce income inequalities and poverty in a variety of ways."<sup>54</sup> The report goes on to mention that well-developed transport infrastructure networks are a "prerequisite for the access of less-developed communities to core

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<sup>49</sup> *Australian Government - Department of Foreign Affairs and Trade: Vietnam country brief*, September 2013, accessed October 23, 2013, [http://www.dfat.gov.au/geo/vietnam/vietnam\\_brief.html](http://www.dfat.gov.au/geo/vietnam/vietnam_brief.html).

<sup>50</sup> Ibid.

<sup>51</sup> *Vietnam celebrates 20 years of relationship with ODA donors*, Tuoitrenews, October 18, 2013, accessed October 23, 2013, <http://tuoitrenews.vn/business/14197/vietnam-celebrates-20-years-of-relationship-with-oda-donors>.

<sup>52</sup> Ibid.

<sup>53</sup> *Vietnam Infrastructure Strategy - Cross-Sectoral Issues: Executive Summary*, 2013, 1, accessed October 22, 2013, <http://siteresources.worldbank.org/INTVIETNAM/Resources/Ex-Summary-CrossSectoralIssues.pdf>.

<sup>54</sup> Klaus Schwab, *Global Competitiveness Report*, (Geneva: World Economic Forum), 2013, 5.



economic activities and services.”<sup>55</sup> The investments being made by Vietnam’s ODA benefactors, largely in the area of transport infrastructure, are directly affecting its economic viability.

Japan is not only Vietnam’s leading bilateral ODA benefactor, but it is also fourth in the area of FDI at US\$1.15 billion or 8.8 % of the total US\$19.2 billion for the period of 1 January – 20 October 2013. This total is an increase of 65.5 % from the previous year. Other leading FDI contributors are South Korea at the top of the list with US\$3.59 billion invested, Singapore at US\$2.72 billion and China at US\$2.25 billion.<sup>56</sup> These commitments by regional partners are assisting Vietnam in raising its economic status.

### **INFRASTRUCTURE SPURS EMPLOYMENT**

Intuitively, increased infrastructure projects will increase employment opportunities and thereby stimulate economic growth. As construction projects begin, more labor force is needed to accomplish these works on often short timelines. This brings an influx of personnel to a region which is accompanied by a need for goods and services to meet basic needs; workers will need somewhere to sleep, eat and be entertained. Each of these aspects has an economic value for a region. Therefore for each project that is funded within Vietnam, the local community stands to have an immediate economic adrenaline boost. Additionally, if outside countries do not bring their own labor force, there is an additional advantage to creating jobs for the local

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<sup>55</sup> Ibid, 5.

<sup>56</sup> *Vietnam Lures \$19.2Bln FDI in Jan 1-Oct 20, Up 66% YoY: GSO*, October 23, 2013, accessed October 23, 2013, [http://www.stoxplus.com/News/128037/1/188/vietnam-lures-\\$19-2bln-fdi-in-jan-1-oct-20-up-66-yoy-gso.stox](http://www.stoxplus.com/News/128037/1/188/vietnam-lures-$19-2bln-fdi-in-jan-1-oct-20-up-66-yoy-gso.stox).

people. Since Vietnam's youth constitute a large source of the unemployed (three times higher than the adult rate), this will help alleviate this disconnect albeit for a short period.<sup>57</sup>

In addition to the short term fix of manual labor force, basic services will need to be raised for these areas increasing employment opportunities. Additional hospitals and associated staff, police force, and fire fighters are a few of the public services that need to be bolstered to account for growing populations due to infrastructure projects that are both assisting in decreasing bottlenecks and increasing capacity due to urbanization.<sup>58</sup> This is a common phenomenon among countries that undergo development spurred by industrialization and urbanization. Other countries witnessed similar urbanization impacts that Vietnam will likely encounter on its journey to becoming industrialized. The UN Habitat State of the World's Cities Report for 2010/2011 stated "The prosperity of nations is intimately linked to the prosperity of their cities. No country has ever achieved sustained economic growth or rapid social development without urbanizing."<sup>59</sup> Urbanization should be anticipated and, therefore, planned for as Vietnam presses forward to achieve its goal of being industrialized by 2020.<sup>60</sup> Expanding the infrastructure will prepare for further urbanization as well as spur economic growth.

In November 2003, Japan studied the linkage between Vietnam's economic growth and poverty reduction, specifically large-scale infrastructure and its Comprehensive Poverty Reduction and Growth Strategy (CPRGS). This study closely examined the effects of the Hai

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<sup>57</sup> *Global youth unemployment rate to reach 13 per cent this year: ILO*, May 8, 2013, accessed October 29, 2013, [http://www.ilo.org/hanoi/Informationresources/Publicinformation/Pressreleases/WCMS\\_212989/lang--en/index.htm](http://www.ilo.org/hanoi/Informationresources/Publicinformation/Pressreleases/WCMS_212989/lang--en/index.htm).

<sup>58</sup> *Urbanization and Global Change: Consequences of Sprawl in the United States*, January 4, 2006, accessed October 31, 2013, [http://www.globalchange.umich.edu/globalchange2/current/lectures/urban\\_gc/](http://www.globalchange.umich.edu/globalchange2/current/lectures/urban_gc/).

<sup>59</sup> *Asian Development Bank - Urbanization in Asia: 12 Things to Know*, March 29, 2012, accessed October 31, 2013, <http://www.adb.org/features/12-things-know-2012-urbanization-asia>.

<sup>60</sup> *The Voice of Vietnam - Economy: Vietnam aims for an industrialised status by 2020*, December 14, 2005, accessed October 29, 2013, <http://english.vov.vn/Economy/Vietnam-aims-for-an-industrialised-status-by-2020/39398.vov>.

Phong port upgrade in the north on subsequent trade increases for the area as well as creating income opportunity and “trickle-down” effects through various linkages. The port experienced a 50% increase in container traffic in the subsequent year. The growth spread to neighboring provinces spurring major structural transformation in the way of feeder and transport roads for the rural communities nearby. As a result, demand for tourism in Ha Long Ba increased by more than five times in a 6-year window, increasing by 45% in the period 2000-2001 alone. According to the report, the effects included “creation of new employment and income for workers at factories and hotels (direct jobs), and for the transport industry and services (indirect jobs).” Additional FDI firms employed a total of 14,000 workers earning higher salaries and adding more stimuli to the economy.<sup>61</sup> This type of impact can happen across the regions infused with large scale infrastructure projects.

A similar large scale project in the south near Ho Chi Minh City spurred similar economic growth and development. The construction of the My Thuan Bridge and National Highway 1 opened up a connection between Ho Chi Minh City and Can Tho, the commercial center within the Mekong Delta region. This connection decreased travel time by nearly 1.5 hours between the two cities and increased freight and passenger movement as well. Can Tho province boasts of having three industrialized zones employing nearly 13,000 workers. Similar to the North, tourism in Can Tho has increased since the completion of the bridge in 2000.<sup>62</sup>

## **INFRASTRUCTURE INCREASES CAPACITY**

After considering the growth and expansion in the agricultural sector, the foreign investors willing to partner financially, and the employment opportunities spurred by

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<sup>61</sup> *Linking Economic Growth and Poverty Reduction - Large-Scale Infrastructure in the Context of Vietnam's Comprehensive Poverty Reduction and Growth Strategy*, November 2003, accessed October 24, 2013, 5-6, [http://www.grips.ac.jp/forum-e/pdf\\_e01/LinkingEcoGrowth.pdf](http://www.grips.ac.jp/forum-e/pdf_e01/LinkingEcoGrowth.pdf).

<sup>62</sup> *Ibid*, 6.

infrastructure projects, this research concludes that Vietnam's overall economic capacity is increased by investments in infrastructure. The World Economic Forums, Global Competitiveness Report, 2013-2014 states that "extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, as it is an important factor in determining the location of economic activity and the kinds of activities or sectors that can develop within a country."<sup>63</sup> Several projects will increase both road and port capacity in the coming years.

Construction began in April 2013 on the Lach Huyen international port in the northern Haiphong city. This port will be accomplished in two phases with the first phase being managed by the Vietnam Maritime Administration. This initial phase consists of constructing the port for an investment of US\$885 million. The second phase consists of joint management, Japanese and Vietnam, over a US\$315 million to construct two 750 meter wharves capable of handling 100,000 ton container ships. The port will have modern cargo handling equipment and is scheduled for completion in 2016 with the capability of handling container ships of up to 8,000 twenty-foot equivalent units (TEUs).<sup>64</sup>

A separate infrastructure project involves a four-lane expressway called the Dau Giay-Phan Thiet expressway project. In July 2013, the Ministry of Transport opened the opportunity for applicants to become the second investor on the US\$775 million project. This major undertaking would require successful bidders to "design, finance, construct, operate and maintain a four-lane expressway and allied structures" for the travel distance from Dau Giay in the Dong Nai province west to Phan Thiet in the Binh Thuan province located on the coast, east of the

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<sup>63</sup> Klaus Schwab, *Global Competitiveness Report*, (Geneva: World Economic Forum), 2013, 5.

<sup>64</sup> *Vietnam Infrastructure Report, Q4 2013*, (London: Business Monitor International), 2013, 7.

southern city Ho Chi Minh.<sup>65</sup> This project is a demonstration in the government's willingness and desire to use Public Private Partnerships (PPP). The PPP regulations are under review and if properly developed could offset the concerns of losing foreign investing as a result of waning European bank credit.<sup>66</sup>

There are also existing railway projects under consideration in the transport sector of infrastructure. The existing north-south rail lines are in need of upgrades. The Ministry of Transportation is contemplating modification to the existing lines as well as construction of a new north-south system.<sup>67</sup> Financing will also be a major concern as is the case for other infrastructure projects previously mentioned. The Hanoi Railway Station is expected to be the center of the country's rail system. According to the fourth quarter infrastructure report by Business Monitor International, the station will be a multi-modal hub with upgraded facilities and services capable of "an annual transportation capacity of 13.7 million [tons] of freight and 17.7 million passengers."<sup>68</sup> This type of growth is sure to invite future businesses, expand trade options for the country, and spur further economic growth.

## CONCLUSION

As the Clinton campaign used "it's the economy stupid" as a key message in the 1992 presidential election, the infrastructure is just as important to the growth of Vietnam's economy as it makes positive strides to becoming an industrialized nation by 2020. It has already made significant reforms economically moving increasingly more toward a market economy.

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<sup>65</sup> *Vietnam Infrastructure Report, Q4 2013*, (London: Business Monitor International), 2013, 7.

<sup>66</sup> *Ibid*, 22.

<sup>67</sup> *Ibid*, 34.

<sup>68</sup> *Ibid*, 34.

Vietnam's desire to become a member of the World Trade Organization was a positive and powerful statement underscoring its willingness to be open and enhance trade agreements.

As the country continues to expand trade options, it must ensure its infrastructure, particularly in the transport sector, is capable of meeting existing and future growth needs. The infrastructure strategy will have major impacts on the single largest employer for the country, farming. The agriculture sector will see immediate and powerful impacts as rural roads are upgraded and/or maintained, port capacity is increased, and transportation systems are enhanced to accept larger volume and decrease bottlenecks.

Funding through foreign investments has proven beneficial over the past two decades for this developing country and additional investments will be critical to maintain the necessary infrastructure growth require to meet requirements. Bank investments will remain a critical component but foreign capital investments will always be a valuable way of forging bilateral relationships, particularly as industrialization continues. Public-private partnerships are additional means that Vietnam will continue to maximize the use of foreign dollars through other creative vehicles.

As the 2003 Japanese report espouses, large-scale infrastructure projects have far reaching impacts beyond the scope of the particular end item. Surrounding areas benefit from additional developmental opportunities, basic services are expanded, and local employment is buoyed. Direct and indirect jobs aid household incomes and put more money back into local businesses thus decreasing the poverty level and improving macroeconomic indicators.

Finally, infrastructure upgrades can entice further competition as regional actors become aware that the capacity to expand is available. Projects assist the micro and macroeconomic

situations for a country. Vietnam values its upward tick of GDP growth and decreasing poverty rate, both great signs of a country working hard to change its regional economic status. The United States, via Pacific Command, has an opportunity to bolster a stable Vietnamese economy and therefore ensure regional stability lessening the chance for non-state actors to gain a safe-haven.

## **RECOMMENDATIONS**

The United States has several options to influence and shape the environment as it pertains to Vietnam's economic growth through investments in infrastructure:

- The United States should opt to split existing humanitarian assistance funds and provide some nominal amount to maintain options or a more robust investment potentially to gain some leverage over Vietnam's future. In either instance, the time is ripe for investment as outside funding sources become harder for Vietnam to secure due to precarious European markets and its own debt encumbered state-owned enterprises
- The United States should accept a softer approach and provide training assistance in the area of transport infrastructure management or large-scale project administration. This would entail enticing public or private sector companies steeped in expertise in this area to step forward and provide the government on the job training in high value project management or infrastructure operations and maintenance.
- Additionally, the United States should opt to maintain a level of engagement by leveraging existing allied relationships with Vietnam. Australia and Japan, both strong US allies, are heavily invested in large-scale transport infrastructure projects with ODA

and FDI funding. Through multi-lateral engagement the US could gain some influence in the area of access as necessary to maintain peace and stability in the region.



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